

**STATE CORPORATION COMMISSION  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2000**



## **AUDIT SUMMARY**

Our audit of the State Corporation Commission for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls; and
- no instances of noncompliance that are required to be reported.

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## AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The State Corporation Commission (the Commission) is an independent agency directed by three commissioners; each elected by the General Assembly for six-year terms. Each commissioner administers specific divisions and annually the commissioners rotate the chairmanship. The primary activities of the Commission are:

- Regulation of Insurance Companies
- Regulation of Utilities and Ground Transportation
- Regulation of Financial Concerns
- Regulation of Business Practices

The Commission collects various taxes, assessments, and fees for the General Fund of the Commonwealth, Special Revenue Funds, and Trust and Agency Funds. General Fund Revenue Collections were \$356 million in fiscal year 2000. Special Revenue Fund Collections were \$86 million and Trust and Agency Fund collections were \$24.5 million. Operating Expenses, funded by Special Revenue Collections, were \$56 million. For further details, please refer to the summary of Commission Collections and Disbursements to Others and the summary of Operating Revenue and Expenses at the end of the report. The following sections discuss the Commission's operation in more detail.

### **Regulation of Insurance Companies**

The Bureau of Insurance regulates, licenses, and examines all types of insurance companies doing business in Virginia. Most of the revenues collected by the Bureau of Insurance come from the Gross Premium Tax on Insurance Companies, which increased \$6 million between fiscal year 1999 and fiscal year 2000. The Gross Premium Tax comprised 70 percent of all transfers to the General Fund of Commonwealth by the Commission. The Commission also transferred \$9.2 million of the Gross Premium Tax to the Department of Medical Assistance Services for the Virginia Children's Medical Security Insurance Plan Trust Fund.

#### **Selected Insurance Regulation Revenues**

	<u>Fiscal Year 2000</u>	<u>Fiscal Year 1999</u>	<u>Variance</u>	<u>Percentage Variance</u>
General fund – Gross premium Tax on insurance company	\$251,074,072	\$244,909,995	\$ 6,164,076	2.52%
Special revenue fund – Producer appointment fees	\$ 8,987,295	\$ 8,453,448	\$ 533,847	6.32%
Special revenue fund – Assessment to insurance companies for maintenance of BOI	\$ 7,640,708	\$ 5,529,064	\$ 2,111,643	38.19%

The Bureau of Insurance retains the Special Revenue Funds listed above to cover its administrative expenses. The Assessment to Insurance Companies for the Maintenance of Bureau of Insurance increased \$2 million as a result of the increase in the Maintenance Tax Assessment rate from .4 percent to .5 percent in fiscal year 2000.

The Bureau of Insurance also collected the following amounts from Insurance Companies, which they forwarded to other State Agencies: \$13.7 million to the Department of Fire Programs, \$3 million to the Virginia Department of State Police, for insurance fraud investigation, and \$1 million, to the Virginia Department of State Police, for the HEAT Program.

The Bureau of Insurance also distributed \$7.9 million to Auto Insurance Companies in Uninsured Motorist Funds that the Department of Motor Vehicles collected.

### **Regulation of Utilities and Ground Transportation**

Utilities Regulation monitors electric, gas, water, and telecommunications companies. They also monitor utility construction projects, perform gas pipeline safety inspections, and audit utility company financial records. The Public Service Taxation Division collects taxes and fees from the utility, railroad, and motor carrier companies. The Telecommunications Relay program provides telecommunications services to the deaf and hard-of-hearing residents of Virginia. One telephone company operates the relay center and the Commission collects a monthly surcharge from all the telephone companies to pay for the operating costs.

The Commission is currently implementing Virginia's competitive energy supply market. As a result of deregulation beginning in 2001, all gas and electric companies will go from a gross receipts tax to a net corporate income and consumption tax. The consumption tax on the electric consumer will be a three-tiered rate based on customer usage levels. The gas distribution company's consumption tax will use a single tiered rate based on customer usage. The service provider will bill the customer monthly. The provider in turn will remit the state and special portions of the consumption tax collected to the Public Service Taxation Division. Consumers will need information about these changes and the Commission presented their Consumer Education Plan to the General Assembly in response to section §56-592 of the Code of Virginia. The Commission has responsibility for educating consumers about energy supply deregulation, and is setting aside special revenue funds to finance the consumer education program. The following are the Commission's projected costs for the Consumer Education Plan over the next five years.

#### **Consumer Education Plan Projected Costs**

<u>Fiscal Year</u>	<u>Annual Costs</u>
2001	\$ 4,500,000
2002	4,500,000
2003	6,000,000
2004	6,000,000
2005	<u>5,000,000</u>
Total	<u>\$26,000,000</u>

### **Regulation of Financial Concerns**

The Bureau of Financial Institutions regulates and examines state-chartered banks, savings and loans, and credit unions. The Bureau of Financial Institutions also licenses and examines mortgage lenders and brokers, and licenses and regulates money order sellers, consumer finance companies, and debt counseling services.

Due to a decrease in revenue from the loss of Crestar from their tax base, the banking division is reducing expenses to compensate for the loss of revenue. SunTrust is the new owner of Crestar and is an out-of-state bank. The Commission revised its policy of having three months operating expenses on hand to six months to ensure it had adequate operating funds.

## **Regulation of Business Practices**

The Business Practices' divisions consist of the Clerk's Office and the Division of Securities and Retail Franchising. The Clerk's Office collected \$19 million in Special Revenue Funds, of which \$15 million came from domestic and foreign corporation registrations. In calendar year 1999, the Clerk's Office registered 18,480 new Virginia corporations and 4,819 foreign corporations. There were 195,020 active corporations in Virginia during 1999. After operating expenses, the Clerk's Office transferred \$14.4 million to the General Fund of the Commonwealth.

The Division of Securities and Retail Franchising collected a total of \$8.2 million in fiscal year 2000. The table below shows the major sources of operating revenue in the Division of Securities and Retail Franchising.

### **Division of Securities and Retail Franchising Major Sources of Operating Revenue**

Broker-dealer and agents fees	\$5,434,140
Broker-dealer, agents and securities registration fees	\$1,899,707
Investment advisor registration fees	\$ 563,325
Retail franchise registration fees	\$ 315,000

## **FINANCIAL STATEMENTS**

State Corporation Commission  
Collections and Disbursements to Others  
For the year ended June 30, 2000

	Prior Year Due to Others	Collections	Disbursements	Due to Others
Collected by insurance regulation for general fund	\$ -	\$ 242,280,724	\$ 242,280,724	\$ -
Transfer from general fund collections to Virginia Children's Medical Security Insurance Plan Trust Fund at the Department of Medical Assistance Services	-	9,237,057	9,237,057	-
Collected by utility regulation for general fund	-	97,853,156	97,853,156	-
Collected by business regulation for general fund	-	6,678,474	6,678,474	-
Department of Fire Programs	33,329	13,678,226	13,703,203	8,352
Insurance fraud - State Police	-	3,096,976	3,096,976	-
HEAT assessment fund - State Police	7,835	1,058,127	1,058,152	7,810
Auto Insurance Companies in Uninsured Motorist Funds for the Department of Motor Vehicles	-	7,955,016	7,955,016	-
Literary fund revenue	46,865	1,414,392	1,325,973	135,284
Rolling stock tax for localities	444,449	445,072	444,449	445,072
Flood insurance assessments for the Department of Conservation and Recreation	39,865	91,946	95,935	35,876
Total collected, disbursed, and due to others	\$ 572,343	\$ 383,789,166	\$ 383,729,115	\$ 632,394



State Corporation Commission  
Operating Revenue and Expenses  
For the year ended June 30, 2000

	Regulation of Insurance	Regulation of Utilities and Ground Transportation	Regulation of Financial Concerns
Statutorily set taxes collected by/for:			
Bureau of Insurance	\$ 18,087,344	\$ -	\$ -
Public service taxation	-	19,063,889	-
Dual Party Relay	-	8,715,513	-
Railroad regulation	-	750,520	-
Underground utility safety	-	-	-
Federal energy grants	-	-	-
Financial institutions revenue	-	-	10,481,124
Clerk's Office - Regulation of business practices	-	-	-
Securities - Regulation of business practices	-	-	-
Other	57,128	-	-
Total operating revenue	18,144,472	28,529,922	10,481,124
Operating expenses:			
Dual Party Relay	\$ -	\$ (7,396,532)	\$ -
Gas pipeline safety	-	-	-
Underground utility damage prevention	-	-	-
Personnel services	(10,362,363)	(6,696,709)	(5,520,389)
Contractual services	(6,941,256)	(3,990,250)	(3,072,425)
Administrative supplies	(68,479)	(28,345)	(17,448)
Continuous charges	(371,123)	(234,082)	(136,108)
Computer/office equipment	(226,598)	(59,335)	(94,004)
Other expenditures and adjustments	(472)	(600)	4,400
Total operating expenses	(17,970,292)	(18,405,854)	(8,835,974)
Transfers out:			
From Clerk's Office to the general fund of the Commonwealth	-	-	-
Debt service payments on Tyler building	(174,252)	(537,900)	(331,538)
Department of the Deaf and Hard-of-Hearing	-	(120,901)	-
Appropriation Act Part 3	(30,880)	-	-
Department of Taxation	-	(217,008)	-
Other	(26,248)	-	-
Total transfers out	(231,380)	(875,809)	(331,538)
Cash balance brought forward	8,091,981	20,268,805	5,081,878
Net operating increase for the year	(57,200)	9,248,259	1,313,612
Operating cash balance at June 30, 2000	\$ 8,034,781	\$ 29,517,064	\$ 6,395,490

Note: The Other Column is mainly comprised of the Underground Utility Damage Prevention Fund, and the Gas Pipeline Safety Fund. Other also includes the Federal Indirect Cost Recovery fund, Surplus Property Fund, Paycheck Garnishment, and Parking fund.

	Regulation of Business Practices	Other	Total
\$	-	\$ -	\$ 18,087,344
	-	-	19,063,889
	-	-	8,715,513
	-	-	750,520
	-	1,432,364	1,432,364
	-	229,258	229,258
	-	-	10,481,124
	19,077,223	-	19,077,223
	8,255,768	-	8,255,768
	-	79,091	136,219
	27,332,991	1,740,713	86,229,221
\$	-	\$ -	\$ (7,396,532)
	-	(229,258)	(229,258)
	-	(429,073)	(429,073)
	(4,816,994)	-	(27,396,456)
	(5,558,506)	-	(19,562,437)
	(136,468)	-	(250,740)
	(367,972)	-	(1,109,285)
	(194,329)	-	(574,267)
	424	(34,595)	(30,843)
	(11,073,845)	(692,926)	(56,978,891)
	(14,405,100)	-	(14,405,100)
	(485,249)	-	(1,528,939)
	-	-	(120,901)
	-	(1,319)	(32,199)
	-	-	(217,008)
	-	-	(26,248)
	(14,890,349)	(1,319)	(16,330,395)
	9,529,302	1,444,925	44,416,892
	1,368,797	1,046,468	12,919,935
\$	10,898,099	\$ 2,491,394	\$ 57,336,827

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November 14, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **State Corporation Commission** (the Commission) for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Commission's accounting records, review the adequacy of the Commission's internal control, and test compliance with applicable laws and regulations. We also reviewed the Commission's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues and Cash Receipts	Accounts Receivable
Expenses	Payroll
Fixed Assets	

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's controls were adequate, had been placed in

operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations and the Commission's accounting records.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Commission's accounting records. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 14, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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STATE CORPORATION COMMISSION  
Richmond, Virginia

COMMISSION OFFICIALS

Commissioners

Hullihen Williams Moore, Chairman  
Clinton Miller  
Theodore V. Morrison, Jr.

